Guinness Emerging Markets Equity Income

Investment Commentary – September 2023

RISK

This is a marketing communication. Please refer to the prospectuses, KIDs and KIIDs for the Fund, which contain detailed information on its characteristics and objectives, before making any final investment decisions.

The Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Further details on the risk factors are included in the Fund's documentation, available on our website.

Past performance does not predict future returns.

ABOUT THE STRATEGY

Launch	23.12.2016
Index	MSCI Emerging Markets
Sector	IA Global Emerging Markets
Managers	Edmund Harriss Mark Hammonds CFA
EU Domiciled	Guinness Emerging Markets Equity Income Fund

OBJECTIVE

The Guinness Emerging Markets Equity Income Fund is designed to provide investors with exposure to high-quality dividend-paying companies in Emerging Markets worldwide. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time. The Fund is actively managed and uses the MSCI Emerging Markets Index as a comparator benchmark only.

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COMMENTARY

Emerging markets sold off heavily in August. The MSCI Emerging Markets Net Total Return Index fell 4.7% (all performance figures in GBP unless stated otherwise).

The fund outperformed the benchmark in this environment, declining 4.1%.

For the year to date, the fund leads the benchmark, up 2.4%, while the benchmark is down 0.8%.

Emerging markets significantly underperformed developed markets in the month, in contrast to July. The MSCI World Index fell 0.9% in August and the S&P 500 Index fell 0.1%.

All regions generated negative performance, with Latin America the worst performing, down 5.9%. Asia was next, down 4.7%. EMEA (Europe, Middle East and Africa) was the best performer, down 3.9%.

Growth was the weaker performing style in the sell-off, falling 5.0% versus down 4.4% for value.

Among the largest countries, the best performing were Indonesia (+0.1%), India (-0.4%) and Saudi Arabia (-0.8%).

The worst performing countries were South Africa (-11.0%), China (-7.6%) and Brazil (-6.9%).

The strongest performers in the portfolio were Tech Mahindra (+8.8%), Elite Material (+7.9%), and Jumbo (+6.3%).

The weakest performers were China Merchants Bank (-18.6%), Ping An Insurance (-15.7%) and B3 (-15.4%).

Tensions between the US and China continued to simmer, with the announcement by Joe Biden of restrictions on private equity and venture capital investments in China.

Consumer price inflation in China became negative during July as food prices retreated from the elevated levels of 12 months ago.

In the face of a struggling property sector in China and a weakening economy, the People's Bank of China marginally lowered interest rates. However, the market was anticipating much bigger cuts. See commentary section below.

After elections in May were followed by months of deadlock, Thailand's parliament selected a candidate from the Pheu Thai party to be the next prime minister. The breakthrough came shortly after former prime minister Thaksin Shinawatra was allowed to return to the country from self-imposed exile. The Move Forward party, which won the election, was prevented from taking power by the country's military establishment.

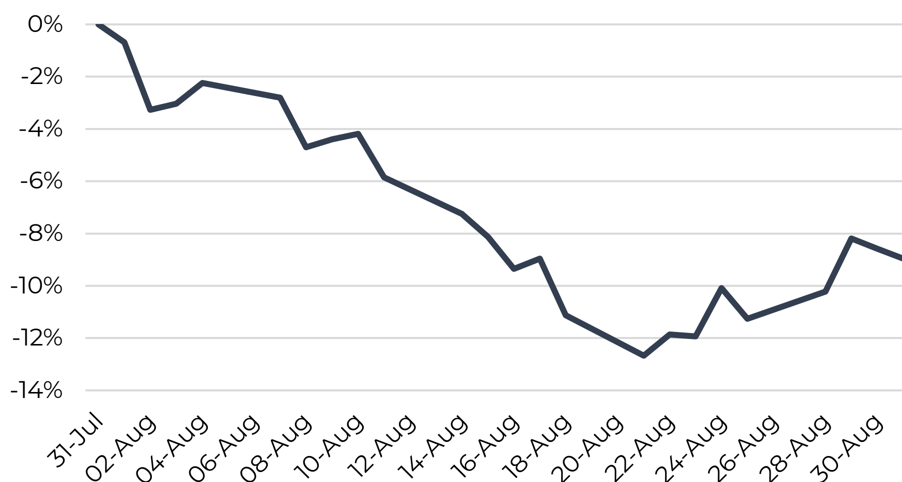
Leader of the opposition Congress party, Rahul Gandhi, returned to India's parliament after his conviction for defamation was suspended.

Emerging market currencies fell 1.9%, significantly underperforming the dollar which rose 1.7%.

Crude oil prices rose 1.5%, with Brent finishing the month at $86.90 per barrel.

AUGUST IN REVIEW

China property and banks



Source: Bloomberg, MSCI. Net returns in US dollars as of 31.08.2023

Speculation about China's financial system has intensified in recent weeks. Debt defaults in the property sector have given rise, usually by inference only, to the notion that the financial system itself is at risk. China's global financial presence is enormous, and it remains a net foreign creditor, meaning for those countries running deficits funded by government borrowing (the US, the UK and much of Europe, for example), China is a major source of the capital. How big a source can be gauged by its $3 trillion dollars of foreign exchange reserves held mostly in US Treasuries and Euro government bonds.

If a financial collapse was likely, we would expect a rapid withdrawal of that capital to shore up the system back home, resulting in sudden global financial tightening. We would also expect imports (and prices) of oil, iron ore, copper and agricultural commodities to slump, affecting the southern hemisphere. China's annual $6 trillion of trade in intermediate and finished goods would also contract. So for all investors, everywhere, in every asset class, this question is more than one of just polite interest. To reassure on the above points, there have been no signs of strain in the global financial or commodity complexes.

We find it notable that those sounding warnings appear unable to put numbers to their argument on systemic risk. We, on the other hand, are able – and it becomes apparent that while the debt issue is substantial, there is more than enough capital in the banking system to manage the fallout of the shrinking real estate sector that has been deliberately engineered and sustained by the government:

- Over the past 10 years, capital reserves in China's banking system have trebled to $4.6 trillion of capital reserves. This amounts to 15% of the $32 trillion of risk-weighted assets, well above the level required in the third Basel (banking) Accord.
- The Trust Companies, those that securitise loans and sell them on as wealth management products, have a much lower capital base of $0.1 trillion, or 4.7% of $2.2 trillion risk-weighted assets.
- Property developer debts amount to around $2.75 trillion, of which $1.8 trillion has been lent by banks (out of total bank loans of $32 trillion), $0.3 trillion from Trust Companies and $0.75 trillion in bonds.
- Mortgage debt amounts to $5.6 trillion, which, for context, equates to 31% of GDP versus over 50% in Germany and over 60% in the UK. Chinese mortgage rates have dropped this year from over 5% to 4.1% currently. With mortgage borrowers able to refinance at lower rates this is not seen as a problematic area.

Starting from this position, we can see that the banking system has substantial capital relative to its exposures, and while the Trust Companies look more vulnerable, they are much smaller in scale relative to the system. We can question the accuracy of these numbers, but we can also track their evolution over time, in aggregate and at the individual institutional level to assess reasonableness. And finally, we can perform stress tests. At simplest, if we assume that 50% of all property loans (banks, trusts and bonds) go bad and 60% of those are a complete loss, we would be looking at a capital hit of $2.75 trillion times 50% times 60%: $0.8 trillion, which still leaves $3.8 trillion of capital and a capital adequacy ratio of 11.8%, still above the Basel threshold.

This would be a bad scenario, no doubt, but importantly it shows the system itself could withstand such an outcome and therefore, investors should not be making decisions based on qualitative assertions that China is "in trouble". Our assessment is that the government is serious about shrinking the real estate sector and its output to match China's long-term demographic profile more closely. This would also free up capital for more productive economic activities. We will continue to see individual institutional failures but even Country Garden, which is causing bondholders such anguish and has $187 billion of total liabilities, does not represent a systemic risk.

A final question on financial stability would concern the second or third-order impact of a falling property market. The property sector accounts for almost 25% of GDP after all, with land sales accounting for a significant share of local government revenue and property acting as collateral for some bank loans. We can do a similar stress test on banking system loans, which stand at $32 trillion. The reported non-performing loan ratio for the system is 1.62%. Let us assume the ratio goes to 10% and (given the loans are to areas other than just property) let us assume a lower 40% loss rate. This would result in a capital hit of $1.3 trillion, leaving $3.3 trillion of capital or 10.4% of risk weighted assets, in line with Basel thresholds.

Over the last 20 years, excesses have built up in China's property market. At the same time, its manufacturing and trade growth has allowed it to accumulate a substantial pool of capital. Government policy is geared to preparing China's economy for a new phase of development which focuses on new industries against a backdrop of an ageing and shrinking population. Signs of progress can be seen in the electric vehicle market where it is now the world's biggest exporter, its dominance in the EV battery segment, the solar segment and the wind segment. Huawei's development of a domestic 5G handset using chips made by SMIC in the face of US sanctions suggests greater technical knowhow in Chinese industry than was assumed. Our message on China is that structural and cyclical headwinds are clearly evident, but elsewhere in the economy there is still dynamism and growth.

For more details on China's market performance, we refer you to the Guinness Greater China Fund's August investment commentary.

PORTFOLIO PERFORMANCE

Updates came in during the month for several of the portfolio holdings:

- Porto Seguro, a Brazilian insurer, reported results for the second quarter, which significantly beat expectations at the earnings level. Better performance in net investment income was the main contributor, benefiting from good performance in equity holdings offsetting weakness in inflation-linked bonds. In auto insurance, a low loss ratio provided a tailwind. Premiums written grew 15% year-over-year, although this represents a sequential decline from

26% in the first quarter. Overall, a good mix of client growth, good pricing and lower claims reflect the underlying quality of the business.

- TSMC approved plans for a European chip fabrication plant in Dresden, Germany. The German government is set to contribute €5bn, representing half of the cost of the facility, with the remainder coming from a joint venture with Bosch, Infineon and NXP. TSMC's contribution will be €3.5bn. The plant will produce chips for the automotive and industrial sectors.

- Haitian International, a manufacturer of injection moulding machines, announced results for the first half. Revenues saw a modest 2% decline on the previous year, due to weaker domestic consumer demand and lower business investment. Gross profit increased 2%, benefiting from lower prices of raw materials. Overall earnings per share increased 5%.

- Netease reported good results for the second quarter overall. Although lower gaming revenues caused a miss relative to consensus estimates at the revenue level, gross margins came in ahead of expectations due to product mix (higher margin online games and Cloud Music). Lower sales and marketing expenses and a forex gain contributed to a strong bottom-line performance.

- Yili, a Chinese dairy company, reported results for the second quarter showing relative soft growth in revenues and net profit (+1% and +3% year on year respectively). Liquid milk sales have recovered since the first quarter, but the rebound was less strong than hoped for. Despite lacklustre growth, Yili gained almost 3 percentage points in market share for the first half, indicating a very strong relative performance with the backdrop of a tough industry environment.

OUTLOOK

Market performance in August signalled that investors are still on something of a hair-trigger. The recovery towards the end of the month and so far this month has been calmer. Talk of a soft landing in the US has become essentially the base case, with some even signalling that we are at the foothills of a recovery. As we commented last month, we feel caution is warranted. There certainly remains the potential for unfavourable scenarios to unfold. And a lot has to go right to achieve the soft landing.

Inflation has moderated, which is welcome news, though of course is still at an elevated level. The market is optimistic that the Federal Reserve is reaching the end of its hiking cycle and that peak rates are in sight. Fed officials believe monetary policy is restrictive. The questions though now become: how restrictive does policy need to be, how long will this be for, and will news events unfold in the interim that change the outlook?

Sentiment towards China is bearish, and this pessimistic view is widespread. Policy makers have recently begun to provide more stimulus to support struggling sectors of the economy, real estate in particular. Separately there is talk of increased tension among senior political figures, highlighting the urgency with which leadership is being encouraged to act. The degree to which pessimism is entrenched with China has usually foreshadowed a period of higher returns; once the economy shows signs of improvement, China's longer-term prosperity becomes the dominant narrative. Depressed valuation multiples can create opportunities within our investment universe of quality companies defined by consistently robust return on capital.

By investing in companies with a proven track record of generating high returns on capital over time, we think these businesses will perform relatively well in tougher economic environments. Such companies, we believe are likely to outperform their peers and potentially be the beneficiaries of industry consolidation.

Portfolio Managers

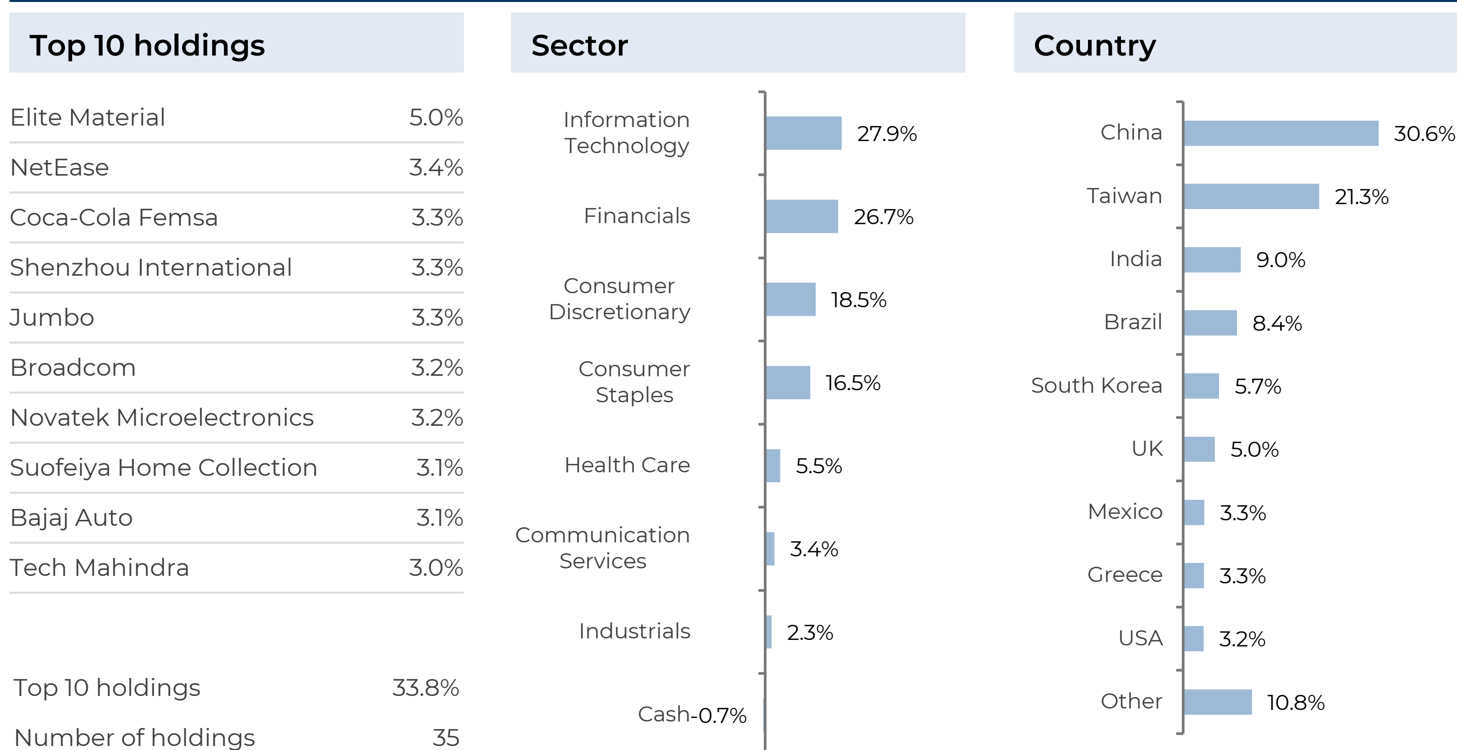
Edmund Harriss
Mark Hammonds

GUINNESS EMERGING MARKETS EQUITY INCOME FUND - FUND FACTS

Fund size	$6.3m
Fund launch	23.12.2016
OCF	0.89%
Benchmark	MSCI Emerging Markets TR
Historic yield	4.3% (Y GBP Dist)

Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the latest month end. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

GUINNESS EMERGING MARKETS EQUITY INCOME FUND - PORTFOLIO



Top 10 holdings

Elite Material	5.0%
NetEase	3.4%
Coca-Cola Femsa	3.3%
Shenzhou International	3.3%
Jumbo	3.3%
Broadcom	3.2%
Novatek Microelectronics	3.2%
Suofeiya Home Collection	3.1%
Bajaj Auto	3.1%
Tech Mahindra	3.0%

Top 10 holdings	33.8%
Number of holdings	35

Past performance does not predict future returns.

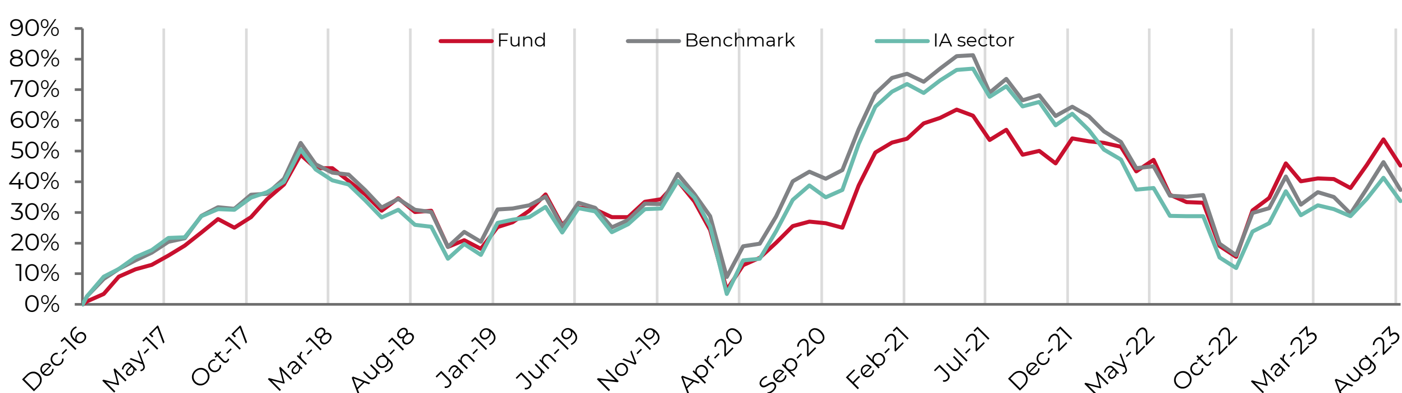
GUINNESS EMERGING MARKETS EQUITY INCOME FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-4.1%	+2.4%	+0.2%	+20.9%	+14.6%	-
MSCI Emerging Markets TR	-4.7%	-0.8%	-7.0%	+1.3%	+7.7%	-
IA Global Emerging Markets TR	-3.9%	+0.4%	-4.7%	+1.8%	+8.8%	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-5.5%	+7.8%	+9.1%	+14.4%	+11.7%	-
MSCI Emerging Markets TR	-6.2%	+4.6%	+1.3%	-4.1%	+5.0%	-
IA Global Emerging Markets TR	-5.4%	+5.7%	+3.8%	-3.7%	+6.1%	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-4.0%	+6.0%	+1.1%	+26.0%	+19.7%	-
MSCI Emerging Markets TR	-4.7%	+2.8%	-6.2%	+5.7%	+12.6%	-
IA Global Emerging Markets TR	-3.9%	+4.0%	-3.8%	+6.1%	+13.8%	-

GUINNESS EMERGING MARKETS EQUITY INCOME FUND - ANNUAL PERFORMANCE

(GBP)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fund	-1.6%	+4.0%	+3.4%	+14.2%	-9.8%	+25.8%	-	-	-	-
MSCI Emerging Markets TR	-10.0%	-1.6%	+14.7%	+13.9%	-9.3%	+25.4%	-	-	-	-
IA Global Emerging Markets TR	-12.2%	-0.5%	+13.7%	+16.0%	-11.8%	+24.4%	-	-	-	-
(USD)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Fund	-12.6%	+3.1%	+6.7%	+18.8%	-15.1%	+37.7%	-	-	-	-
MSCI Emerging Markets TR	-20.1%	-2.5%	+18.3%	+18.4%	-14.6%	+37.3%	-	-	-	-
IA Global Emerging Markets TR	-22.0%	-1.4%	+17.3%	+20.7%	-16.9%	+36.2%	-	-	-	-
(EUR)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Fund	-6.8%	+10.9%	-2.2%	+20.9%	-10.8%	+20.9%	-	-	-	-
MSCI Emerging Markets TR	-14.9%	+4.9%	+8.5%	+20.6%	-10.3%	+20.6%	-	-	-	-
IA Global Emerging Markets TR	-16.9%	+6.1%	+7.6%	+22.9%	-12.8%	+19.7%	-	-	-	-

GUINNESS EMERGING MARKETS EQUITY INCOME FUND - PERFORMANCE SINCE LAUNCH (USD)



Source: FE fundinfo to 31.08.23. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The current OCF for the share class used for the fund performance returns is 0.89%. Returns for share classes with a different OCF will vary accordingly. Transaction costs also apply and are incurred when a fund buys or sells holdings. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

IMPORTANT INFORMATION

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This report is primarily designed to inform you about equities and equity markets invested in by the Guinness Emerging Markets Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report. OCFs for all share classes are available on www.guinnessgi.com.

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Documentation
The documentation needed to make an investment, including the Prospectus, the Key Information Document (KID) / Key Investor Information Document (KIID) and the Application Form, is available in English from www.guinnessgi.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights
A summary of investor rights in English is available here:https://www.linkgroup.eu/policy-statements/irish-management-company/

Residency
In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients. **NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

Structure & regulation
The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland
This is an advertising document. The prospectus and KID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore
The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories.

Telephone calls will be recorded and monitored